THE EUROPEAN INTEGRATION PROCESS IN THE AGE OF SECULAR STAGNATION - NECESSITY OF CONCEPTUAL CHANGES IN ECONOMIC POLICYMAKING

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ABSTRACT

The paper focuses how the current economic and social problems in EU, including worsening in the position of the average citizen in many EU member states and deterioration of the social justice, in the “age of secular stagnation” affect the process of European integration and what should be changed in the policymaking and institutional arrangements, on the national, as well as on the EU level. These problems could be discussed as results of systematic imbalances between liberalization and social regulation due to decades of the neoliberal dominance in economic policymaking, followed by the processes of deregulation and intense globalization. Among other things these features had an impact on changing the original economic goals of the European integration process (in EEC and EU) summarized in: promoting economic growth, increasing prosperity, reaching full employment and promoting welfare state. After decades of successful economic and social progress in the EU, including EU enlargement, the last global economic crisis (2007-09) and the post-crisis slow recovery imposed decreasing support for European integration process everywhere in Europe. In the European countries (both EU and non EU) many citizens lost their faith in future economic and social progress within the EU. That is why in many EU countries politicians appeal for changing policies, in the way of controlling the borders, protecting national industry and increasing economic sovereignty of the member states, as well as reconsideration of the common European policies. The paper argues that instead of such right-wing nationalistic populism, the European economies need conceptual changes of economic policy which should include a new social consensus by taking into account interests of all social groups and kind of a “new deal” between capital, labour and government, not only at national levels, but also at the level of the whole EU. Fulfilling the goal of full employment today is achievement which guarantees not only economic stability and prosperity, but also the maintenance of political stability and democratic order in the European countries.

Keywords: *EU, economic policy, secular stagnation, social consensus*
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1. Introduction

Current economic and social problems that face the European economies seriously put the European integration process (related to the EU) into the questions – its motivations, assumptions and limitations. That process started long ago in specific global circumstances – after the WWII

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in the era of “Cold War“, with significant geopolitical tensions between Eastern and Western block. The European integration was originally motivated to avoid unilateral and destructive policies of the European countries, not only in the area of economic policy conducting. In that way the policy of “beggar-thy-neighbour” as the essence of economic nationalism and protectionism which was predominant characteristic during inter–War period should be avoided by building common European policy.

The founding document, so-called the Schuman declaration (May 9, 1950), proposed “only” the European Coal and Steel Community (ECSC), according to which the first institutional template of European integration was founded in 1951, among six countries: France, West Germany, Italy, Netherlands, Belgium and Luxemburg. After that, in 1957 the Community for civil atomic energy and the European Economic Community were established (the Treaty of Rome), as the base for future European Community and the European Union (the treaties of Maastricht (1992) and Lisbon (2009)). Today the EU includes 28 countries[2], as successful project of international cooperation between sovereign state members within a supranational organization.

The path of the European integration process went in parallel with the changes that have occurred in the economic policymaking, reflecting changes in modern macroeconomics. Development of modern macroeconomics has affected the economic policy goals of the EU, as well as the instruments for the implementation.Similar consequences could be found from the influence of economic trends and macroeconomic indicators (rate of growth, unemployment, inflation, etc.) on the economic policy making at the EU level, as well as of the member states. Economic trends influenced the changes in speed and degree of integration, also. As well, important political events affected the integration process, among this distinguishes fall of the Berlin Wall and the collapse of the Eastern Bloc. For the European integration a new set of goals were imposed – integration of new countries (former socialist countries). Such achievement required additional efforts, given that these countries originally did not have adequate institutional framework (both economic and political), while their economic integration also required the certain convergence to the economies of “old” EU member states.

In accordance to the mentioned issues, the latest global economic recession (2007-09) appeared to be very important for the European integration. The recession was unexpected not only for the economic policymakers all around the world, but also for the people and academics. The recession has actualized important macroeconomic questions, which had been thought to have been resolved long before – relating to the role of government in stimulating economic activity when the global aggregate demand is insufficient (structure and scope of fiscal stimulus), the roles of monetary policy and central bank, especially in maintaining financial stability (Prascevic, 2012). The return to the Keynesian concept of policymaking happened during the recession not only in the US, but in the EU, also. Nevertheless, a significant fiscal stimuluswhich has been taken as response to the recession in many economies imposed fiscal imbalances, as well as problems of public debts (sovereign debt crisis). An extensive package of fiscal incentives, together with obvious mistakes made in conducting economic policy during pre-recession period, led to a significant increase in the budget deficit, along with financial crisis. After the recession, slow and long process of recovery put average citizen in many EU countries in bad position. These issues have brought back the classical approach in economic policymaking with primary goal of balancing the state budgets by implementation of the austerity measures. Some of the European economies fell into serious economic and social troubles (for

[2]After the referendum, the UK remains a member of the EU until the process of withdrawal negotiations ends.

example, Greece, Portugal, or Spain). In some of them these problems still remain with certain deterioration of the social justice.

The problem of long-term economic stagnation affecting the global economy in the post-crisis period (in the "age of the secular stagnation") made the process of European integration even more complicated since relations between actors of political life of the EU (governments, voters, bureaucrats and interest groups) became even more complex due to change in their goals and preferences. Same could be found for critics of the European integration process which include wide range of arguments. For supporters of the integration, political and economic crisis which shakes the EU today is consequence of institutional incompleteness of the integration ("half-build house", for example monetary union without fiscal union, or banking union). On the other hand, the opponents of the integration insist that integration process has gone too far bringing political and economic motivations of the supranational policymakers different form the motives of the European people. Also in the post-recession period the main problem of the political economy of integration – how to make trade-offs between costs and benefits from economic and political unification among European heterogeneous populations, became even more insolvable.

2. The Free-Market Capitalism and European Integration Before the Global Recession

The process of building European integration started within the framework of Keynesian economic policy conducting with the concepts of full-employment capitalism and of welfare state, according to which the government plays a key role in promoting well-being of all citizens. However the shift in the macroeconomics happened in late 1970s and early 1980s, with the collapse of the concept of full employment in economic policymaking (the "laissez-faire revolution") which affected the economic policy of the European economies, members of the European Community. Such change in economic policy conducting implied giving primal role to the market-liberal approach on the expense of social regulation and welfare-state development. At the same time such approach made the economic dimension of the European integration more important than the political dimension of the process.

Undisputed success of the free market macroeconomics in European economies and "intellectual monopoly" in the form of radical anti-Keynesianism, until the recent global recession, has been contributed primarily by the fact that business cycles on average became weaker in intensity of economic decline during the recession, and thus reduce the cyclical fluctuations of employment all over the world. At the same time the process of European integration has been successful for long period implying that the free-market capitalism, along with processes of deregulation and intense globalization, provided framework for uninterrupted economic growth and social prosperity. The European integration process contributed to getting-off competition between European economies in times of globalization (Seikel, D. 2016).

That appeared to be true also for the EU enlargement, since before the global economic crisis and the post-crisis slow recovery, support for European integration process recorded significant intensity everywhere in Europe. In addition, paradoxically the success of neoliberal approach in EU was supported and even boosted by the collapse of the Soviet bloc and the processes of economic transition and political democratization in the former communist European countries. For many citizens in these countries the concept of free-market capitalism was a synonym for freedom (economic and political), and joining the EU became a primer goal which will ensure economic prosperity. That is why citizens from former socialist countries relatively easily accepted painful process of market deregulation, liberalization and privatization. For citizens from those countries that became new members of the EU benefits from provision of common public goods and policies at the EU level appeared to be greater then costs. On the other hand, for citizens from "old" EU countries benefits from EU enlargement came primarily from securing political control over a large part of the Europe, including defence and security, as well as from the large common market.

However, implementation of free-market capitalism represented not only the abandonment of the goal of full employment as a legitimate objective of economic policy in capitalism, but also a radical change in the relationship between labour and capital, which is in the hart of capitalist system, representing the basis for determination of income distribution in market economies. It was also an ideological shift in managing the capitalist system, which meant to diminish the importance of labour (i. e. the working class), which had grown during the post-war development of the Keynesian welfare state.Capitalism then returned to the capital as the most important factor of production in capitalism. Instead of full employment capitalism the concept of free-market economy was promoted, in which market solutions were the only answers to the situation of high unemployment, while the concept of full employment was considered as a key source of unjustified wage growth at the expense of profits, leading to labour market inflexibility, inefficiency of economic agents and reducing the propensity to invest which ultimately caused the problems with persistent and rising inflation, poor economic growth, and ultimately of high unemployment. Reducing the variability of economic activity and reducing inflation were considered as the most important consequences of changes in modern macroeconomics before the last global recession. The global economic recession (2007-09), however, as the longest and most severe recession in the post-war period, with the largest drop in income, consumption, investment and rising unemployment put the dominant macroeconomic theory and economic policy into the question. The same could be found for the poor post-recessionary macroeconomic development which could be defined as secular stagnation with important features of low interest rates in long period, low inflation and very low economic growth and with constant threat of starting a new recession.

3. Challenges of the European Integration Process in the "Age of Secular Stagnation"

Two parallel tendencies could be found in development of European integration from the beginning. One is connected with advocacy for tighter links between European countries not only in economic fields, but also in the political – including political unification (federalization of the EU). The second insists on remaining power of national governments (based on national sovereignty of state members). These approaches affected building the institutional framework of the EU in divergent directions, making the European integration path complicated. The supporters of the tighter integration with goals to eliminate national borders and international conflicts between European countries are in accordance to the functionalism (transferring certain "functions" to supranational institutions, including political integration). On the other hand, their opponents insist on intergovernmental approach (intergovernmentalism) according to which the national governments should stay in charge of the European integration process and for the EU policy (including economic policy) in order to pursue the interests of their domestic constituencies (Spolaore, E. 2013).

The latest global recession appeared to be the biggest challenge for the European integration process. That includes questioning economic policymaking on the level of the EU, but also of the member states, institutional frameworks including political and economic institutions, especially monetary union without fiscal unification (the eurozone debt crisis which imposed significant risk to the European banking system), and the issues connected with further enlargement of the EU or exiting from the EU. However, the post-recession slow recovery imposed even greater problem than the recession by decreasing support for European integration process everywhere in Europe.

The concept of secular stagnation which was originally proposed by one of the most famous American Keynesians – Alvin Hansen (Summers (2014)) could be implemented for explaining current state of the global economy, including the EU economy, still trapped in prolonged episode of slow growth. The concept focuses several issues. First is connected with ineffectiveness of monetary policy due to liquidity trap and low real interest rates which however will not affect the increase in sustainable investment. Second, a weak investment growth has been recorded due to insufficient aggregate demand resulting among other factors from the income distribution problems within society, when the income distribution goes in favour of profits rather than wages and in favour of the rich people (Prascevic, 2016). These are reasons for conclusion that the fiscal policy still maters and the state have a crucial role in economic policymaking, in a way for boosting economic activity and growth, oppositely to the “austerity measures” approach.

Problem of high and persistent unemployment singled out as one of the most obvious all around the Europe Union. After almost a decade from the beginning of the crisis growth prospects of the European economies still face considerable problems (table 1) with persistent employment gap, high unemployment (in January 2017 unemployment rate in EU-28 was: **8.1%** and in euro area EU-19 the unemployment rate was: **9.6%**[3]), high long-term unemployment (4.5 % of the labor force in the EU-28 in 2015 had been unemployed for more than one year; more than half of these, 2.8 % of the labor force had been unemployed for more than two years), growing dominance of part-time employment, job insecurity and stagnant real wages. European economies still face the questions: how to ensure and improve optimism of the investors and people for the future and how to overcome the unemployment challenges? The relationship between investment and innovation is the answer for creating long-term growth.

Table 1: Real GDP growth in the EU, 2005–2015 (%)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Average (2005-2015)**
EU-28	2.1	3.3	3.0	0.4	-4.4	2.1	1.7	-0.5	0.2	1.5	2.2	0.9
Euro area (EU-19)	1.7	3.2	3.0	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.1	2.0	0.8

Source: Eurostat

In circumstances of unfavaroble prospects for macroeconomic development the questions of justification of the process of European integration are again reopened, together with the questions of the role of national governments in reaching national economic goals. Institutional architecture of the EU shows significant weaknesses with the collapse of the European social

[3]Compared to other economies unemployment in the EU is still important problem - In January 2017, the unemployment rate in the United States was 4.8 %, up from 4.7 % in December 2016 but down from 4.9 % in January 2016.

model and the lack of solidarity between European nations. That is especially evident in the EU economies faced with the recessionary effects due to applied austerity measures which resulted in worsening social status of the majority of the population (table 2).

The "European social model" (combination of economic growth, high living standards and good working conditions) has been called into the question in several elements by implementing these severe austerity measures. The European citizens in these countries faced weakening of public service provisions – healthcare or education, but also of basic supply of electricity or gas. Such unfavourable developments made clear that the EU do not ensure delivery of basic public services for all European citizens, no matter in which member state they live. These member states by implementing the austerity measures became less social, mainly through changing taxation, social benefits, wages and employees` rights. These measures are meant to ensure macroeconomic stability but also to increase national economic competitiveness of these member states. Unfortunately, this has been done at the expense of social and labor standards affecting the majority of population in these countries. Austerity measures that had been imposed in several countries contributed to the rise of tensions and differences between the EU member states, due to the lack of solidarity among the member states. Among these economies only the economy of Ireland fully recovered (table 3).

Table 2: Economic and social consequences of the austerity measures in several EU economies

Country	Start of the austerity	Components of the austerity measures	Economic consequences	Social consequences
Ireland	September 2008 (several packages)	Raise in taxes (VAT), pay cuts and layoffs for public-sector workers, civil service reform, increasing work week, spending cuts for capital investments and cuts of welfare cuts.	Austerity measures had a strong recessionary impact: rise in unemployment rates, decline in GDP growth, decline in domestic consumption; improvement of the current account balance since lower wages improved competitiveness of the Irish economy.	Negative social consequences of the austerity due to cutbacks in the social welfare, health care and education systems; a rise emigration (especially of young Irish people). Significant protests against austerity measures didn't happen.
Greece	February 2010 (several packages)	Raise in taxes, public-sector spending cuts: cuts in public-sector employment and wages, pensions, equalization of men's and women's pension age limits, reduction in the number of public-owned companies and municipalities, etc.	Austerity measures had a strong recessionary impact: rise in unemployment rates, decline in GDP growth, decline in domestic consumption, rise in public debt/GDP ratio.	Dramatic social consequences which led to social unrest and political protests against government and "Troika". In 2015 Greek election resulted in a new government led by the Syriza party with main goal to end the austerity policy but that did not happened.

Spain	May 2010 (several packages)	Raise in taxes, spending cuts (at state and local levels), increase of the retirement age (to 67), public-sector spending cuts, education cuts, energy cuts and increase in electricity prices, hospital privatization, infrastructural cuts, labor market reforms.	Depressing effects of the austerity policies on the Spanish economy: Continuous increase of the unemployment rates including youth unemployment, decrease in the wages not resulted in a lower unemployment rate, increase in exports and decrease in imports not resulted in a lower unemployment rate.	Social dissatisfaction due to cutbacks in the social welfare, health care and education systems; a rise in suicide and depression rates; rise in social unrest (anti-austerity protests).
Portugal	May 2010 (several packages)	Raise in taxes (on income and capital gains), public-sector spending cuts: cuts in public-sector employment and wages, cuts in higher pensions; privatization in energy sector, naval and defense construction, air transport, communications, media etc.; deregulations in land use and home rentals; a labor market reform.	Depressing effects of the austerity policies on the Portuguese economy: Continuous increase of the unemployment rates and decrease in the rate of economic growth, increase in exports and decrease in imports not resulted in a lower unemployment rate.	Enormous social costs of the measures due to cutbacks in the social welfare, health care and education systems; a rise in suicide and depression rates; rise in social unrest (anti-austerity protests) when it became clear that austerity failed to deliver its promises ("reform fatigue").

Table 3: Real GDP growth in several EU countries, 2005–2015 (%)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	Average (2005-15)
Ireland	5.8	5.9	3.8	-4.4	-4.6	2.0	0.0	-1.1	1.1	8.5	26.3	3.4
Spain	3.7	4.2	3.8	1.1	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2	0.4
Portugal	0.8	1.6	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.5	-0.2
Greece	0.6	5.7	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.2	-2.1

Source: Eurostat

In the European countries (both EU and non EU) many citizens lost their faith in future economic and social progress within the EU. They don`t belive that their children will have a better life than their own. It is esspecially true from a worker-oriented perspective due to several reasons. European citizens are in general dissapointed how the EU institutions handle the problems of social inequalities (within the EU and within the state members) and unemployment. It is not surprising that in 2016 people in the UK voted to leave the EU ("Brexit"). The "Brexit" appeared to be one of the most important challenges for the future of EU by inducing significant political, financial and economic risks.

4. Prospects for the Future Integration and Economic Policy

Although the European integration has been inspired by the ambitious goals among which is to create the preconditions for transnational solidarity in the EU, as well as to provide social and democratic well-being of European citizens, that did not happened completly. However, the latest recession is not only reason for such bad develoment. The reason is more complicated and it goes back to the period of free-market revolution (in early 1980s) when abonding of the socio-democratic dimensions of the European integration started. Soon after that the EU`s institutions and policies have become dominated by tehnocrats and bureacrats, with some undemocratic elements in policymaking, often at the supranational level (Seikel, D. 2016).

The middle class in the EU has been most affected by unfavorable economic trends during and after the recession. Althought for long period - during the whole capitalistic development, just the midlle class has been the backbone for the European societies and their economic progress. The current problems facing the middle class are related to slower economic growth and increasingly unequal distribution of income, eroding the essence of the social contract in the European countries. In fact, economic growth has long represented a substitution for sensible social cohesion policies. Without it many citizens have lost faith in any kind of social justice provided by institutions and policies of the European Union (Archick, K. 2017).

Along with economic and political pressures the EU currently faces a range of problems connected with ongoing migrant and refugee crisis which includes several dimensions. First of all it is connected with serious threat to security of the EU (due to possible terrorism threat) which calls into question the existence of the Schengen area of free movement (individual countries have at times reintroduced border controls within the Schengen area). The migrant crisis is connected also with financial and economic problems (many of them are economic migrants), and of course with social and cultural dimensions (foreign migrants came mostly from Muslim majority countries of African and Asian regions). Citizens of the European Union perceive the newly arrived migrants as a threat to their economic and social position, as well as for the values on which the EU is based such as “four freedoms”: free movement of goods, services, people and capital within a single market. There is also fear connected with protection of the European identity, with respect to large cultural and religious differences of the migrants.

That is why in many EU countries politicians (and voters) appeal for changing policies, in the way of controlling the borders, protecting national industry and increasing economic sovereignty of the member states, as well as reconsideration of the common European policies. This would generate results that are just supposed to be avoided by the European integration process – nationalism (including economic nationalism) and different conflicts (economic and political) on the European continent.

Such rise of populist and often right-wing political parties with intensive anti-EU sentiments in the member states could be devastating not only for the future of the EU, but for the whole European continent – its political and economic stability and prosperity, and even worse for its security. That is why instead of such right-wing nationalistic populism, the European economies need conceptual changes of economic policy which should include a new social consensus by taking into account interests of all social groups and kind of a “new deal” between capital, labour and government, not only at national levels, but also at the level of the whole EU. Only the significant economic growth could help to overcome the current challenges facing the EU. That is why the agenda of sustainable development is vital for standing the EU as the unique international partnership and as foundation of European stability and prosperity. This agenda can not be founded on neoliberal economic approach, and further insistence on such approach in economic policymaking could have devastating consequences for the whole European project. Fulfilling the goal of full employment today is achievement which guarantees not only economic stability and prosperity, but also the maintenance of political stability and democratic order in the European countries.

The new political agenda for the European integration process should include macroeconomic, social, distributional, educational and environmental dimensions. This process doesn't include only further enlargement, but also organized effort to stop further abandonment of the European Union (for example "Frexit"). Although the EU remains open for further enlargement (especially for Western Balkans countries that fulfill criteria for membership), economic and political conditions, along with the rise of populist and euroskeptic parties in the EU states do not give much cause for optimism.

5. Conclusions

The multiple crisis (economic and political) currently facing the EU, along with geopolitical issues in the "age of secular stagnation" represent a threat to the existence of the European Union as well as for the process of European integration and enlargement of the EU. It could not be seen only as a consequence of the latest global economic recession, but also as the result of mistakes in economic policymaking which were made due to neoliberal domination in mainstream macroeconomics, as well as consequence of inadequate institutional framework of the EU. Beneficial reforms in the EU should include changes in the EU institutional arrangement, but also changes in the economic policymaking, including fostering economic growth and achieving the goal of full employment. The original economic goals of the European integration process (promoting economic growth, increasing prosperity, reaching full employment and promoting welfare state) should be reaffirmed in the new global context with the focus on providing more social justice and solidarity among the EU.

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